

**REPORT OF THE AUDIT OF THE
FORMER CAMPBELL COUNTY
SHERIFF'S SETTLEMENT - 2013 TAXES**

**For The Period
May 14, 2013 Through April 15, 2014**



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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER CAMPBELL COUNTY SHERIFF'S SETTLEMENT - 2013 TAXES

**For The Period
May 14, 2013 Through April 15, 2014**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2013 Taxes for the former Campbell County Sheriff for the period May 14, 2013 through April 15, 2014. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$52,980,512 for the districts for 2013 taxes, which includes \$1,681,765 collected for 911 Service Fees. The former Sheriff also retained commissions of \$1,412,137 to operate the former Sheriff's office. The former Sheriff distributed taxes of \$51,546,214 to the districts for 2013 taxes. Refunds of \$723 are due from the districts to the former Sheriff.

Report Comments:

- 2013-001 The Former Sheriff's Office Lacked Controls Over The 911 Service Fee And Did Not Provide Adequate Oversight
- 2013-002 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Tax Receipts And Disbursements

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Steve Pendery, Campbell County Judge/Executive
Honorable Jeff Kidwell, Former Campbell County Sheriff
Honorable Mike Jansen, Campbell County Sheriff
Members of the Campbell County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the former Campbell County Sheriff's Settlement - 2013 Taxes for the period May 14, 2013 through April 15, 2014 - regulatory basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



To the People of Kentucky
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Auditor's Responsibility (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the former County Sheriff, as of April 15, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period May 14, 2013 through April 15, 2014 of the former Campbell County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 19, 2015 on our consideration of the former Campbell County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the former Campbell County Sheriff's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control over financial reporting and compliance.

To the People of Kentucky

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William M. Landrum III, Secretary

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Honorable Mike Jansen, Campbell County Sheriff

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Other Reporting Required by Government Auditing Standards (Continued)

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2013-001 The Former Sheriff's Office Lacked Controls Over The 911 Service Fee And Did Not Provide Adequate Oversight
- 2013-002 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Tax Receipts And Disbursements

Respectfully submitted,



Adam H. Edelen

Auditor of Public Accounts

August 19, 2015

CAMPBELL COUNTY
JEFF KIDWELL, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2013 TAXES

For The Period May 14, 2013 Through April 15, 2014

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 7,830,703	\$ 10,861,682	\$ 21,947,192	\$ 6,368,972
Tangible Personal Property	674,370	722,008	1,413,196	1,020,393
Increases Through Exonerations	3,836	4,496	11,180	2,977
Franchise Taxes	417,202	442,186	907,540	
Additional Billings (911 Fee)	1,681,765			
Penalties	24,063	31,348	62,005	20,312
Adjusted to Sheriff's Receipt	21,862	52,455	5	227,796
 Gross Chargeable to Sheriff	 <u>10,653,801</u>	 <u>12,114,175</u>	 <u>24,341,118</u>	 <u>7,640,450</u>
 <u>Credits</u>				
Exonerations	17,330	24,895	51,884	13,522
Discounts	148,441	203,415	409,589	133,516
Delinquents:				
Real Estate	102,460	120,008	277,334	83,335
Tangible Personal Property	24,828	17,564	53,345	13,409
Franchise Delinquent	16,411	17,814	39,932	
Total Credits	<u>309,470</u>	<u>383,696</u>	<u>832,084</u>	<u>243,782</u>
 Taxes Collected	 10,344,331	 11,730,479	 23,509,034	 7,396,668
Less: Commissions *	<u>384,977</u>	<u>358,881</u>	<u>353,921</u>	<u>314,358</u>
 Taxes Due	 9,959,354	 11,371,598	 23,155,113	 7,082,310
Taxes Paid	9,955,587	11,366,741	23,147,498	7,076,388
Refunds (Current and Prior Year)	<u>3,767</u>	<u>4,857</u>	<u>8,338</u>	<u>5,922</u>
 (Refunds Due Sheriff)				
as of Completion of Audit	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (723)</u>	<u>\$ 0</u>

**

* and ** See next page.

The accompanying notes are an integral part of this financial statement.

CAMPBELL COUNTY
JEFF KIDWELL, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2013 TAXES
For The Period May 14, 2013 Through April 15, 2014
(Continued)

* Commissions:

4.25% on	\$ 23,492,346
2.5% on	\$ 128,500
1.5% on	\$ 23,380,533
1% on	\$ 5,979,133

** School Districts:

Common School	\$ (564)
Silver Grove School	(23)
Bellevue School	(86)
Dayton School	<u>(50)</u>

(Refunds Due Sheriff) \$ (723)

CAMPBELL COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2014

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Campbell County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

CAMPBELL COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 15, 2014
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Campbell County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of April 15, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2013. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2014. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 11, 2013 through April 15, 2014.

Note 4. Interest Income

The former Campbell County Sheriff earned \$1,526 as interest income on 2013 taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the former Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The former Campbell County Sheriff collected \$108,635 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the former Sheriff's office.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The former Sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing account. The Sheriff's total escrowed amounts were as follows:

2008	\$298
2009	\$662
2010	\$ 5,880

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110. The Sheriff should send a written report to the Treasury Department for and submit \$298 for tax year 2008, \$662 for tax year 2009, and \$5,880 for tax year 2010 to the Kentucky State Treasurer in accordance with KRS 393.110.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Steve Pendery, Campbell County Judge/Executive
Honorable Jeff Kidwell, Former Campbell County Sheriff
Honorable Mike Jansen, Campbell County Sheriff
Members of the Campbell County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the former Campbell County Sheriff's Settlement - 2013 Taxes for the period May 14, 2013 through April 15, 2014 - regulatory basis and the related notes to the financial statement and have issued our report thereon dated August 19, 2015. The former County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the former Campbell County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Campbell County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Campbell County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2013-001 and 2013-002 to be material weaknesses.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Campbell County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Former Sheriff's Responses to Findings

The former Campbell County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The former Sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

August 19, 2015

COMMENTS AND RECOMMENDATIONS

CAMPBELL COUNTY
JEFF KIDWELL, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period May 14, 2013 Through April 15, 2014

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2013-001 The Former Sheriff's Office Lacked Controls Over The 911 Service Fee And Did Not Provide Adequate Oversight

The 911 service fee originated with the passing of ordinance O-04-13 for the purpose of providing additional funding for the operation of enhanced 911 emergency services. These 911 service fees were placed upon the Campbell County property tax bills, to be collected by the Sheriff's Office, and disbursed to the Campbell County Consolidated Dispatch Board.

During the audit, auditors determined the 911 service fee was not included on the former Sheriff's Official Receipt or the 2013 Tax Settlement. This resulted in a material adjustment by the auditor on the former Sheriff's 2013 Tax Settlement. Also, the former Sheriff's office personnel were unable to provide information when it came to the 911 service fees charged, collected, and distributed.

Auditors noted the former Sheriff's Office did not maintain documentation for unpaid 911 fees. A tax bill would be marked paid if the tax payer paid the taxes regardless of whether the 911 fee was paid or unpaid. As a result, auditors were unable to determine which 911 fees were unpaid and no delinquent listing was provided.

We recommend the Sheriff's Office immediately implement controls over the handling of the 911 Service Fee. In addition we have the following recommendations:

- The Sheriff's Office should ensure all taxes and fees charged on the tax bills are on the official receipt.
- The Sheriff's Office should include all taxes and fees charged on the tax bills on the settlement.
- The Sheriff's Office/Fiscal Court should implement software adjustments to be able to provide all information related to the 911 Service Fee.

Additionally, we recommend the Sheriff's Office implement controls/procedures for handling of the 911 Service Fee when it comes to documenting charges, credits, collections, and distributions.

Former Sheriff's Response: 911 Fees were not included with taxes because they are not taxes but County imposed fees.

Auditor's Reply: The Sheriff's Office should always be able to account for any fee or tax for which the office is accountable for collecting.

CAMPBELL COUNTY
JEFF KIDWELL, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period May 14, 2013 Through April 15, 2014
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2013-002 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Tax Receipts And Disbursements

The former Sheriff's office had a lack of adequate segregation of duties over tax receipts and disbursements. The employee responsible for handling tax receipts also recorded the receipts in the ledger, prepared the bank deposits, and performed the monthly bank reconciliations. In addition, the employee prepared the disbursement checks and was an authorized signer on checks. By the same employee performing these functions, the risk that errors or fraud may go undetected increases. The following compensating controls could have been implemented to offset this internal control weakness:

- The former Sheriff could have periodically compared a daily bank deposit to the daily checkout sheet and compared the daily checkout sheet to the receipts ledger. Any difference should have been reconciled. The former Sheriff could have documented this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger.
- The former Sheriff could have periodically performed surprise cash counts and recounted cash. The former Sheriff could have documented this by initialing the bank deposit ticket.
- The former Sheriff could have periodically compared the bank reconciliation to the balance in the checkbook. Any difference should have been reconciled. The former Sheriff could have documented this by initialing the bank reconciliation and the balance in the checkbook.

Former Sheriff's Response: Periodic checks were performed on bank deposits (daily).

